GOVERNMENT OF ANDHRA PRADESH
ABSTRACT

Industries and Commerce Department – Vendor State Support package under "Backward Areas Ultra Mega Integrated Automobile Projects Policy and Industrial Development Policy 2015-20 to M/s KSH Automotive Private Limited Tier-1 vendor of M/s KIA Motors India Private Limited (KMI) to set-up Ancillary units at Ammavarupalli villages, Ananthapuramu District– Orders-Issued.

INDUSTRIES AND COMMERCE (P&I) DEPARTMENT

G.O.Ms.No.38 Dated: 17-03-2018
Read the following:-

1. G.O.Ms.No.40, Ind. & Com. (P&I) Dept., dt. 8.03.2017.
2. GO.Ms. No.56 Inds. & Comm. (P&I) department 26-04-2017
3. Memorandum of Understanding signed between GoAP and KMI, dated 27-4-2017.
4. Letter received from M/s. Saehan Industrial Co., Ltd. on 18.12.2017
5. Letter of Mr.Soomin Hwang, Corporate Planning team on behalf of Korean Vendor Consortium, dated 20.12.2017 and 20.01.2018
6. Letter of Mr.Soomin Hwang, Corporate Planning team on behalf of Korean Vendor Consortium, dated 11.01.2018
7. Minutes of the State Investment Promotion Committee meeting held on 12.02.2018.
8. Minutes of the State Investment Promotion Board Meeting held on 15-02-2018.

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ORDER

1. M/s Kia Motors India (P) Ltd., (KMI) proposes to set up car manufacturing facility, with initial installed capacity of 3, 00,000 cars per annum, at Erramanchi Village, Ananthapuramu District with an investment USD 1.6 Billion together with its Associates over a period of 7 years as envisaged in the Policy with a potential to create employment opportunity for 4000 permanent employees and 7000 temporary employees. The temporary employees shall include all contractors and subcontractors.16 Associates/Vendors of KMI proposed to establish their units with an investment of USD 737 Million with a potential to create employment for 6583 people.

2. KMI Associates and Vendors qualify as Associates/Ancillary suppliers to Ultra Mega Integrated Automobile Project i.e. KMI as per the Backward Areas Ultra Mega Integrated Automobile Projects Policy, as the vendors/associates undertaking to invest USD 0.5 billion over a period of 5 years, as envisaged in the Policy with a commitment for supplying not less than 50% of production capacity to the mother plant for (10) years from their respective date of commercial production. However, it was agreed to consider 100% requirement of KMI for (5) years as an alternate option. The details of the investment & employment of associates and vendors are tabulated below:

S. No.	Associate/ Vendor	Investment (USD Million)	Employment	Products	Capacity (Capable of manufacturing parts/providing services for production of following number of vehicles)	Turnover (USD Million) (Estimated Max/ Turnover 2021 assuming KMI producing 300,000 vehicles)
Associates for Worker's Dormitory						

1	Hyundai Mobis Co., Ltd	43.7	436	Module	300,000	583
2	Hyundai Dymos Inc.	148	812	Seat, Manual Transmission	300,000	212
3	Hyundai Steel Company	37.8	91	Skelp, Sheet	300,000	178
4	Hyundai Glovis Co., Ltd.	101.5	1135	Consolidation Center, Tire Wheel Assembly, Vehicle Processing Center	300,000	147
Associates and vendors for vendors site A						
5	SungwooHitech Co., Ltd.	84.7	850	Body parts assembly	300,000	102
6	Saehan Industrial Co., Ltd.	95.0	520	Body parts assembly	300,000	74
7	Seoyon E-Hwa Co., Ltd.	78.9	562	Door trim, Bumper	300,000	87
8	NVH Korea Inc.	48.0	503	Headlining	300,000	81
9	Hyundai Materials Corporation	8.3	127	Scrap	300,000	20
10	Faurecia Korea Ltd.	9	250	Crash Pad	300,000	20
Vendors for vendors site B						
11	SL Corporation	30.0	345	Lightning	300,000	49
12	Hwaseung R&A Co., Ltd.	16.4	225	Weather strip	300,000	22
13	Woo Young Co. Ltd.	15.2	175	Door frame	300,000	16
14	Daechang Seat Co., Ltd.	9.7	255	Seat frame	300,000	15
15	INZI Controls Co., Ltd.	6.0	84	Air cleaner	300,000	10
16	Boogook Industries	4.8	213	Tube assembly	300,000	8

	Co., Ltd.					
	Total	**737.0**	**6,583**			**1,624**
	Total (INR-Cr)	**4,790**				**10,556**

3. Of the (16) units, 4 Associates namely Hyundai Mobis Co., Ltd, Hyundai Dymos Inc., Hyundai Steel Company and Hyundai Glovis Co., Ltd. proposes to set-up their facilities in the KMI site, Associates/Vendors namely Sungwoo Hitech Co., Ltd., Saehan Industrial Co., Ltd., Seoyon E-Hwa Co., Ltd., NVH Korea Inc., Hyundai Materials Corporation and Faurecia Korea Ltd. in Industrial Park Ammavarupalli Village of Penukonda Mandal of Anantapuramu District("Vendors Site A")and the remaining 6 Vendors namely SL Corporation, Hwaseung R&A Co., Ltd., Woo Young Co. Ltd., Daechang Seat Co., Ltd., INZI Controls Co., Ltd. and Boogook Industries Co., Ltd. in Industrial Park, Gudipalli Village of Somandapalle Mandal of Anantapuramu District("Vendors Site B").

4. In the references 4th to 6th read above, M/s.KSH Automotive Private Limited, a Vendor of KMI has requested for the following State Support Package to enable them to take decision to set-up a facility for Body Parts assembly in Andhra Pradesh with an investment of USD 95 Million with a potential to create employment to 520 persons. The incentives requested are as follows:-

a) Reimbursement of Input SGST and other state levies on Capital Goods during the Investment Period

b) 100% Output SGST on components and spare parts Refund – 25 Years

c) Input SGST as soft loan for 25 years, repayable with 0.01% interest from 26th year to 50th year (Additional compensatory mechanism for any tax on deemed interest, if levied, to be included in the compensation)

   i. Project Land Price @ Rs. 6 Lacs per acre for Vendors
   ii. Vendors Site A in Ammavarupalli
   iii. Dormitory Site: 5.35 acres
   iv. Vendors Site B in Gudipalli

d) 50% Power Supply Concession Rate @ fixed rate of Rs.3 per Unit for 20 years (Regulation for reimbursement of power cost over and above the said Rs.3 per Unit shall be issued) –(i.e.) if normal power cost is Rs.6.50 per Unit, the same shall be collected from Vendors and Rs.3.50 per Unit shall be reimbursed year on year

e) 50% Water Supply Concession Rate @ fixed rate of Rs.35 per ton / KL for 20 years (Regulation for reimbursement of water cost over and above the said Rs.35 per ton / KL shall be issued) –(i.e.) if normal water cost is Rs.65 ton/KL, the same shall be collected from Vendors and Rs.30 per ton / KL shall be reimbursed year on year

f) Port Related Concession Rate / Subsidies

g) 100% Stamp Duty Exemption – Stamp Duty & Transfer Duty for a fixed period of 10 years for all documents which create ownership or leasehold rights to the Associates & Vendors (such as, without limitation, Sale Deed, Lease Deed), mortgage, hypothecation related to the Project irrespective of achieving 100% recovery of Eligible Fixed Assets value.

h) 100% Exemption on construction related permits and fees (incl. construction permit, land use permit, waste discharge permit, water connection, building permit and associated fees) for a period of 10 years.

i) Power and Water supply shall be applicable for a period of 25 years or upon achieving 100% of the Eligible Fixed Assets, whichever is earlier.

5. The matter was deliberated between vendors and associates of KMI and the Government (Industries Department and Revenue CT Department) After detailed discussions, it was considered that it is not feasible to provide Tax (SGST) incentives to Associates /Vendors of KMI, as Output SGST is being offered to KMI, since the Output of vendors /associates is the input to KMI. Both parties explored the possibility of including other incentives to meet the 100% eligible fixed assets criteria. Post these deliberations, the consortium of vendors/associates of KMI have requested GoAP to provide the following special package of incentives in the reference 5th and 6th read above.

a) Period for claiming the fiscal incentives to be extended for 20 years to recoup their investment to the extent of 100% of "Eligible Fixed Assets" by way of fiscal incentives under GST regime

b) Reimbursement of Non-creditable SGST paid on procurement of works, contract services or other goods or services used for the construction of all manufacturing facility for 20 years from date of commencement of Commercial Production.

c) To provide a training grant to KMI Vendors / Associates for training local residents and to disperse a maximum of Rs 10,000/ - (ten thousand rupees) / per trainee at the end of each financial year upon submission of proof of training for a period of five (5) years subject to mutually agreeable Training Center model with GoAP

d) Power supply to Vendors and Associates at fixed tariff of Rs.3.00 per unit for a period of 20 years.

e) Water supply concession at Rs. 35/KL for a period of 20 years

f) Capital Subsidy of USD 296 Million shall be provided in equal annual instalments

g) To allot requisite land at Rs. 6.00 Lakhs per Acre.

h) To provide External Infrastructure and Utilities such as access roads, service roads, rail over bridge, storm water drainage, waste disposal site, electricity and water supply at its own cost.

   i. GoAP at its own cost shall provide certain **service roads** surrounding the Vendors Project sites
   ii. GoAP at its own cost shall provide **access roads** to the Vendors Project Sites
   iii. GoAP at its own cost shall provide **rail over bridges** to be connected to the Access Roads
   iv. GoAP at its own cost provide **permanent waste disposal site** for vendors.
   v. GoAP at its own cost provide exclusive **temporary power supply** of 33 KV up to the boundary of the Vendors Project Sites until commencement of commercial production
   vi. GoAP at its own cost provide exclusive **permanent power** supply of 220KV up to the boundary of the Vendors Project Sites since commencement of commercial production
   vii. GoAP at its own cost provide exclusive permanent water up to the boundary of the Vendors Project Sites.

i) To provide 5.35 acres of land to for workers dormitories for 4 Associates located in KMI site @ Rs 6.00 Lakhs per acres

j) Exemption from zoning regulations issued vide G.O.Ms.No.151, dated 03.11.2017

6. The proposal was discussed in detail in the State Investment Promotion Committee meeting held on 12.02.2018 and State Investment Promotion Board meeting held on 15.02.2018. The State Investment Promotion Board noted that the Government has committed, to provide incentives up to 100% eligible fixed assets to vendors and associates of KMI in line with the incentive package provided to KMI post GST regime.

The Board further noted that it is not feasible to provide Tax (SGST) incentives to Associates /Vendors of KMI, as Output SGST is being offered to KMI, since the Output of vendors /associates is the input to KMI. As such, the Board has decided to consider reimbursement of work contract tax, power cost reimbursement, water cost reimbursement, skill development and capacity building as part of incentive package to recoup 100% eligible fixed assets. Further, the Board also noted that even after considering all the above incentives, there is a gap of USD 296.22 Million (approx. Rs. 1925 Crores) as per the projected estimates for 20 years. However, the actuals will be worked out based on performance of vendors/associates of KMI.

7. Keeping in view the above facts, the Board has decided to extend the following fiscal incentives to enable vendors/associates of KMI recover 100% of investment in Eligible Fixed Assets post GST Regime. However, non-fiscal support such as land concession and infrastructure & utilities etc provided by the GoAP will not be considered as part of Eligible Fixed Assets of vendors and associates of KMI.

8. The Board further reiterated that actual disbursement of incentives to vendors/associates of KMI shall be subject to their compliance with performance conditions and necessary safeguards as approved by the SIPB in its meeting held on 15-2-2018.

a) To extend all incentives for a period of 20 years to enable the Associates /Vendors to recover their 100% of the eligible fixed assets.

b) To allot requisite land at Rs. 6.00 Lakhs per Acre to vendor at site A (Ammavarupalli)

c) Reimbursement of Non-creditable SGST paid on procurement of works, contract services or other goods or services used for the construction of all manufacturing facility for 20 years from the date of commencement of Commercial Production.

d) Power Supply @ Rs.3.00 per kwh/unit for 20 years and the power cost reimbursement will be so regulated to ensure that power supply is made at a fixed cost of Rs.3.00 per unit over a period of 20 years Date of Commencement of Commercial Production.

e) Reimbursement of fixed Water Supply cost @ Rs.35 per ton/KL for 20 years from Date of Commencement of Commercial Production

f) One time Training grant of Rs.10,000 per local person trained and employed

g) To exempt Ammavarupalli and Gudipalli from the 10 KM prohibition zone notification issued vide G.O.Ms.No.151, to enable KMI vendors and other automobile related industries to set up their units.

h) To provide 5.35 acres of land for workers dormitories for 4 Associates located in KMI site @ Rs 6.00 Lakhs per acres

i) To permit Vendors to utilize the Road over Bridge, Rail over bridge, waste disposal site being created for KMI

j) To provide gap of USD 296.22 Million (approx. Rs. 1925 Crores) in incentives as per the projected estimates in the form of capital subsidy in equal annual instalments for 20 years. However, this is subject to actual performance of Vendors and Associates of KMI.

k) All other incentives as per Backward Area Ultra Mega Integrated Automobile Policy (UMIAP)

l) Keeping in view the proposals received from Tier 1 and Tier 2 vendors of KMI, the Board directed APIIC to identify land parcels for development of "South Korea City" close to the sites of KMI and their Vendors/ Associates i.e in Ammavarupalli and Gudipalli villages, in order to create an eco-system for attracting automobile industries. The estimated cost for development of these clusters is Rs.185.50Cr, which include Roads (Rs.107.50Cr); Water (Rs.37.80 Cr); and Power (Rs. 40.20Cr). Further, it was decided to provide power supply, water supply access roads, service roads, and storm water drainage upto to the tie-in-point of the vendors of KMI coming up in Gudipalli and Ammavaupalli villages.

m) The Board also directed APIIC to identify large parcels of land for development of Automobile Corridor from Anathapuram to Nellore via Madanapalle, Chittoor District.

n) The Board also directed Industries Department to take-up Incentives review after 3 years to assess actual financial implication to the Government and subsequent reviews based on the need.

9. After careful consideration of the decisions of SIPB, the Government hereby extends the following fiscal incentives to M/s KSH Automotive Private Limited subject to taking up fiscal incentives review after 3 years to assess actual financial implication to the Government based on the need and / or every 3 years.

a) To extend all incentives for a period of 20 years to enable the Associates /Vendors to recover 100% of the eligible fixed assets.

b) To allot requisite land at Rs. 6.00 Lakhs per Acre to vendor at site A (Ammavarupalli).

c) Reimbursement of Non-creditable SGST paid on procurement of works, contract services or other goods or services used for the construction of all manufacturing facility for 20 years from the date of commencement of Commercial Production.

d) Power Supply @ Rs.3.00 per kwh/unit for 20 years and the power cost reimbursement will be so regulated to ensure that power supply is made at a fixed cost of Rs.3.00 per unit over a period of 20 years from the Date of Commencement of Commercial Production. The power cost reimbursement provided over and above Rs.3.00 per Unit will be considered as an incentive for computation of eligible fixed assets.

e) Water Supply at fixed cost of Rs.35 per ton/KL for 20 years from the Date of Commencement of Commercial Production

f) One time Training grant of Rs.10,000 per local person trained and employed

g) To exempt Ammavarupalli and Gudipalli from the 10 KM prohibition zone notification issued vide G.O.Ms.No.151, to enable KMI vendors and other automobile related industries to set up their units.

h) To provide 5.35 acres of land to for workers dormitories for 4 Associates located in KMI site @ Rs 6.00 Lakhs per acres

i) To permit Vendors to utilize the Road over Bridge, Rail over bridge, waste disposal site being created for KMI

j) To provide gap in incentives as per the projected estimates in the form of capital subsidy in equal annual instalments for 20 years. However, this is subject to actual performance of Vendors and Associates of KMI.

k) All other incentives as per Backward Area UMIAP Policy.

l) Industries Department shall take-up Incentives review after 3 years to assess actual financial implication to the Government and subsequent reviews based on the need.

m) The actual disbursement of incentives to vendors/associates of KMI shall be subject to their compliance with the following performance conditions and necessary safeguards

a) Performance Conditions

S. No.	Indicator	Condition
1	Investment Period	Five years from effective date (MOU Signing)
2	Committed investment	USD 0.74 Billion, USD 0.67 Billion in Eligible Fixed Assets over 5 years Individual investment as tabulated in para-2.
3	Committed employment	6583 (Direct: 1433, Temporary: 5150), KMI vendor – wise employment as tabulated in para-2 .
4	Actual Production Capacity (Project obligation)	50% of total capacity to KMI for 10 years or 100% requirement of KMI for 5 years. KMI vendor – wise turnover as tabulated in para-2. wise turnover as tabulated in para-2.
5	Local employment	80% local employment
6	Review	First Review in 3 years and subsequent reviews based on the need • Actual investment made • Production capacity achieved • Volume of sales achieved • SGST/VAT accrued to the State • Incentives paid • Shortfall in incentives and capital subsidy to be paid

(b) Safeguard Clauses

S. No	Area	Coverage of clause
1.	Accuracy of information provided by the Ultra Mega Project Proponent	M/s KSH Automotive Private Limited recognizes that it is their responsibility for accuracy of information provided the authorised representative of the Company to GoAP and GoAP shall not be responsible for independently verifying the accuracy of the Project Proponent's project information including investment details provided thereof. Any liability arising out of incorrect disclosure lies wholly with the Project Proponent.
2	Delay in Project Commencement, Implementation &Commencement of Commercial Production by the Ultra Mega Project Proponent	Any delay attributed in commencement of the project on account of delay on part of Company, shall lead to cancellation of land allotment without prejudice to MoU terms & conditions including applicable G.O.'s and other Definitive Agreements. A penalty of an amount equivalent to prevailing SBI PLR shall be levied on the Project Proponent corresponding to time period of holding the land idle and/or delay in project implementation including commencement of commercial production.
3	Disbursement of Incentives equal to 100% of investment in	Disbursement of incentives shall be made pro rata during the term of incentive period subject to the Project Proponent meeting their project obligations as defined in the MoU terms & conditions including applicable G.O.'s and other Definitive

	eligible fixed assets	Agreements. The pro rata incentives to be paid to the Project Proponent shall not exceed 100% of investment in eligible fixed assets made up to that point of time.
	Reconciliation of Incentives	The sum total of all incentives to be paid to the Project Proponent by whatever nomenclature defined, i.e., Power tariff subsidy, incentives etc., shall not exceed 100% of investment in eligible fixed assets as per the eligibility certificate granted from time to time subject to scrutiny of GoAP.
	Incentive Amount	The Power tariff subsidy and other annual incentives shall be paid pro rata during the term of incentive period and shall not exceed 100% of investments in eligible fixed assets made up to that point of time. Any shortfall and/or excess outstanding shall be reconciled in the last quarter of every year. Incentive amount to be paid to the Project Proponent shall be ascertained with reference to the value of eligible fixed assets as certified by customs authorities for imported goods , for locally procured goods as per commercial invoices filed under GST and accounted for in the books of accounts of the Project Proponent & certified by Statutory Auditors of the Project Proponent.
	Disentitlement of Incentives	The Project Proponent shall not be entitled to any incentive by whatever nomenclature if their project obligations are not fulfilled as per the MoU terms & conditions including applicable G.O.'s and other Definitive Agreements.
	PariPassu Charge of Eligible Fixed Assets	GoAP shall have pari passu registered charge on all project related assets including land, building, plant & machinery etc. [hereinafter referred to as Eligible Fixed Assets] until the Project Proponent's obligations are fulfilled as per the MoU terms &conditions including applicable G.O.'s and other Definitive Agreements
4	Definitive Agreement	The Project Proponent shall enter into Definitive Agreements for all eligible incentives under the MoU and applicable G.Os from time to time with designated authority / departments of the GoAP. The Project Proponent shall not hold GoAP responsible for any delay in execution of these Definitive Agreements subject to MoU terms & conditions including applicable G.O.'s and other Definitive Agreements.

n) The Government hereby direct APIIC to identify land parcels for development of "South Korea City" close to the sites of KMI and their Vendors/ Associates i.e in Ammavarupalli and Gudipalli villages, in order to create an eco-system for attracting automobile industries and also to create infrastructure such as power supply, water supply, access roads, service roads, and storm water drainage upto to the tie-in-point of the vendors of KMI coming up in Gudipalli and Ammavaupalli villages with an estimated cost of Rs.185.50Cr, which include Roads (Rs.107.50Cr); Water (Rs.37.80 Cr); and Power (Rs. 40.20Cr).

10. The VC & MD, APIIC and Commissioner of Industries, Vijayawada shall take necessary action, accordingly.

(BY ORDER AND IN THE NAME OF THE GOVERNOR OF ANDHRA PRADESH)

SOLOMON AROKIARAJ

SECRETARY TO GOVERNMENT &CIP

To
The Commissioner of Industries, Andhra Pradesh, Hyderabad.
M/s KSH Automotive Private Limited through the Commissioner of Industries,Andhra Pradesh.
Vendors and Associates of KMI the Commissioner of Industries,Andhra Pradesh.
The PR& RD (PR) Department.
The MA& UD Department.
The H.M.& F.W. Department.
The Collector& District Magistrate, Ananthapuramu District.
The VC&MD, APIIC Ltd.
The General Manager, District Industries Centre, Ananthapuramu District.
The Zonal Manager, APIIC, Ananthapuramu District
The EFS&T Dept.
The TR&B Dept.
The Energy, I&I Dept.
The LET&F dept.
Copy to,
The Finance (EBS-VIII) Department.
SF/Sc.

//FORWARDED :: BY ORDER//

SECTION OFFICER